

Low Carbon Transition

RESOLVED: Shareholders request that Chevron issue a report (at reasonable cost, omitting proprietary information), assessing how it can respond to climate change and the resultant transition to a low carbon economy by evaluating the feasibility of altering the company's energy mix by separating or selling off its highest carbon-risk assets, divisions, and subsidiaries, and/or buying or merging with companies with outstanding assets or technologies in low carbon or renewable energy.

WHEREAS: A transition toward a low carbon economy is occurring and trends to reduce global demand for carbon-based energy are accelerating. A failure to plan for this transition may place investor capital at substantial risk.

Government policies, including fuel efficiency requirements, carbon pricing, and carbon standards are speeding the transition to a low carbon economy. The Paris Agreement's goal of less than 2 degrees warming reinforces this transition.

Low carbon market forces, including competition from electric cars, will be a "resoundingly negative" threat to the oil industry. In October 2016, Fitch Ratings urged energy companies to plan for "radical change."

The International Energy Agency states, "No more than one-third of proven reserves of fossil fuels can be consumed prior to 2050 if the world is to achieve the 2° C goal." Citigroup estimates the value of unburnable fossil fuel reserves at over \$100 trillion through 2050. In contrast, Carbon Tracker estimates oil majors' combined upstream assets would be worth *\$140 billion more* if restricted to projects consistent with a 2 degree demand level. Under this scenario, nearly \$44.8 billion of Chevron's planned capex through 2025 is at risk of stranding. (Carbon Tracker).

Chevron's historic capital spend on high cost, high carbon assets has eroded profitability and increased Chevron's risk profile, making the company vulnerable to a downturn in demand and a subsequent fall in oil prices. (*Unconventional Risks: the Growing Uncertainty of Oil Investments*, As You Sow 2016).

- Chevron's capital expenditures grew nearly 240 percent from 2005 to 2015.
- Chevron's operating profitability has fallen 107 percent over the last decade, and
- Chevron's 2016 ROE and ROIC are at historic lows.

Investors are concerned that Chevron is at risk of further eroding shareholder value through continuing investments in assets likely to be stranded and uneconomic in a low carbon demand scenario. Analysts estimate that oil producers' valuations could drop 40 to 60 percent under this scenario (HSBC).

Shareholders require a plan for how Chevron will transition to a low carbon economy. Chevron's peers Total and Statoil have already begun investing in clean energy projects including wind and solar. Other strategies may include profitably shrinking the company's carbon-based asset base.

Low carbon planning is also critical to meeting Chevron's stated objective of increasing developing countries' access to affordable and reliable energy without conflicting with the Paris Agreement.